

VZCZCXRO5191
PP RUEHCI
DE RUEHKA #1903/01 3401112
ZNR UUUUU ZZH
P 061112Z DEC 07
FM AMEMBASSY DHAKA
TO RUEHC/SECSTATE WASHDC PRIORITY 5744
INFO RUEHLM/AMEMBASSY COLOMBO PRIORITY 8207
RUEHIL/AMEMBASSY ISLAMABAD PRIORITY 1938
RUEHKT/AMEMBASSY KATHMANDU PRIORITY 9415
RUEHNE/AMEMBASSY NEW DELHI PRIORITY 0347
RUEHCI/AMCONSUL KOLKATA PRIORITY 1053
RUEHBK/AMEMBASSY BANGKOK 8309
RUEHRO/AMEMBASSY ROME 0428
RUEKDIA/DIA WASHDC
RUEATRS/DEPT OF TREASURY WASHDC
RUEKJCS/SECDEF WASHDC
RHEHNSC/NSC WASHDC
RUEKDIA/JOINT STAFF WASHDC
RHHMUNA/USCINCPAC HONOLULU HI
RUEHGV/USMISSION GENEVA 0609
RUCNDT/USMISSION USUN NEW YORK 0059

UNCLAS SECTION 01 OF 02 DHAKA 001903

SIPDIS

SIPQIS

DEPT FOR SCA/FO AND SCA/PB
DCHA/OFDA FOR ROBERT THAYER
AID/W FOR AA MARK WARD AND ANE ANNE DIX
TREASURY FOR ELIZABETH WEISS AND SUSAN CHUN
DCHA/FFP FOR MATTHEW NIMS AND PAUL NOVICK
ROME FOR FODAG
BANGKOK FOR RDM/A TOM DOLAN, ROB BARTON
KATHMANDU FOR USAID/OFDA BILL BERGER AND SUE MCINTYRE

E.O. 12958: N/A

TAGS: [BG](#) [EAID](#) [ECON](#) [EFIN](#) [ETRD](#) [EAGR](#) [PGOV](#) [PINR](#)

SUBJECT: BANGLADESH'S POST-CYCLONE ECONOMY: DOWN BUT NOT OUT

REF: A) DHAKA 5871 B) DHAKA 1832

11. (SBU) Summary: Cyclone Sidr couldn't have come at a worse time for Bangladesh's economy. When the storm hit on November 15, Bangladesh already was suffering from weak export markets, debilitating inflation, meager investment and an agriculture industry reeling from severe monsoon flooding. Economists, including the Asian Development Bank, believe economic growth for the fiscal year that began in July will fall below the previous year's rate. The immediate task for the Caretaker Government is to ensure food security in the wake of widespread crop damage, to keep prices from spiraling much higher and to help millions of Sidr victims get back on their feet. International relief already is focusing on these areas and should help the Government maintain political stability in the crucial one-year run-up to national elections. End Summary.

12. (SBU) Even before Cyclone Sidr hit, Bangladesh's economy was in trouble. Exports fell by 5.4% in the first quarter of fiscal year 2008 (July-September) from a year earlier because of weakness in the woven garment and knitwear markets. Imports during the same period rose by 26% on the back of rising oil and food grain prices, darkening the balance of payment outlook. Meanwhile, the government's anti-corruption campaign depressed new investment by making businessmen wary of any activity that could draw attention to their wealth. And monsoon flooding that ravaged much of the northern countryside in the summer wiped out much of the rice crop. In a report released November 26, the Asian Development Bank (ADB) predicted gross domestic product growth of less than 6 percent this fiscal year, compared with 6.5 percent the year before and earlier government expectations of about 7 percent.

13. (SBU) The most politically sensitive economic issue has

been inflation, which before Cyclone Sidr already was on the rise due to expensive imports and the summer flood-related agricultural losses. Nationwide anti-government protests in August were fueled in part by anger over inflation, which by September had reached 10 percent year-on-year. Local media has reported that prices for basic food have gone up even more since, with some items spiking yet further immediately after the cyclone pummeled Bangladesh's southern cropland. Abdur Rob, a wispy-bearded vegetable seller seated behind moderately sized mounds of produce in a central Dhaka market, held up a cucumber and said its price has climbed about 50 percent in the nearly two weeks since the cyclone. Pumpkins weren't available at all, he added. "People are angry." Although the added inflationary pressure from the cyclone may be short-lived, one leading Bangladeshi economist, Mustafizur Rahman, said he doesn't see any respite for the overall price picture.

14. (SBU) One big worry is grain: Will supply meet demand in the coming months? Last year was disaster free, yet Bangladesh still imported about 2.4 million metric tons of rice and wheat, according to economists at the respected Bangladesh think-tank Centre for Policy Dialogue (CPD). They say this year's flood and cyclone rice losses could exceed 2 million metric tons) the Agriculture Ministry on December 1 put the loss at 1.4 million metric tons -- meaning a potential need of 4 million tons or more of grain. Bangladeshis hope a bumper boro winter rice crop will help meet the shortfall. But Uttam Kumar Deb, a senior research fellow at CPD, believes the upcoming harvest won't be able to offset much more than 500,000 metric tons of the loss. There's simply not enough land, and production may lag

DHAKA 00001903 002 OF 002

if fertilizer isn't readily available and diesel fuel prices make the cost of irrigation prohibitive. Availability and high prices also will be issues on the international grain markets.

15. (SBU) Rahman, who is the executive director of CPD, says that Bangladesh's foreign exchange reserves of \$5.4 billion) up nearly 50% from a year earlier) are a saving grace for buying grain on the international market. He says the government also has about 700,000 metric tons of grain in storage. Concerned about food security in the coming months, the Caretaker Government on November 27 appealed to international donors to provide 500,000 tons of grain. During a visit to Dhaka on Dec. 1, the Indian foreign minister promised to ease rice export restrictions to make precisely that amount available for purchase by Bangladesh. Other countries also have promised to provide food assistance; the United States, for example, already has pledged \$15 million.

16. (SBU) There are other glimmers of positive economic news. The ADB reported that from July through October workers, remittances grew by 28.4% from a year earlier, which should help improve the balance of payments outlook. So too should a perkier export market for ready-made garments (RMG). Although RMG exports fell 7.4 percent in July-September from a year earlier to \$2.42 billion, Rahman said sales picked up in September, and October and November order books looked good. Neither Bangladesh's garment factories nor its major seaports were damaged by the cyclone. The government also is showing a greater sensitivity to business concerns; most recently it established the Bangladesh Better Businessmen Forum for dialogue between government and executives to boost confidence.

17. (SBU) Perhaps the most daunting task for the Caretaker Government will be putting the economy of the cyclone-hit areas back together again. Millions of people face losses of homes, crops and livestock; many had their livelihoods destroyed. CPD is urging an expanded works program whereby cyclone victims can help repair roads, bridges and other infrastructure for food. Although much of the Caretaker Government's focus so far has been on providing emergency

relief) it announced a. initial assistance package of nearly \$13 million, including about \$5 million for rebuilding destroyed houses -- The Chief Adviser on December 3 asked donors for \$1 billion for reconstruction. The money would be used for roads, cyclone shelters embankments, reforestation and schools.

18. (SBU) Comment: Relief and recovery from Cyclone Sidr will be a major test for the Caretaker Government, which already has its hands full instituting electoral reforms and preparing for a national election by the end of next year. Helping the Caretaker Government ensure food security and rebuild cyclone-devastated areas) both already high priorities for the U.S. Agency for International Development -- will go along way toward maintaining the social stability needed for a successful transition to an elected government next year.
Pasi